LNG ENERGY LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

December 31, 2011

LNG Energy Ltd.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(in Canadian dollars, unaudited)	December 31, 2011	As at September 30, 2011	October 1, 2010
ASSETS		(Note 16)	(Note 16)
Current			
Cash and cash equivalents	**$ 4,576,017**	$ 20,510,667	$ 10,036,105
Short term investments	**-**	-	9,015,750
Amounts receivable	**888,388**	409,267	314,242
Prepaid expenses, advances and other deposits	**591,205**	462,530	423,467
	6,055,610	21,382,464	19,789,564
Investments	**3,053**	5,243	6,176
Exploration and evaluation assets (Note 8)	**74,258,471**	60,826,781	32,198,880
Property, plant and equipment (Note 9)	**220,501**	201,904	17,704,204
Total Assets	**$ 80,537,635**	$ 82,416,392	$ 69,698,824
LIABILITIES			
Current			
Accounts payable and accrued liabilities	**$ 4,238,280**	$ 6,685,214	$ 1,442,148
Decommissioning obligations (Note 11)	**37,561**	37,820	3,019
Total Liabilities	**4,275,841**	6,723,034	1,445,167
SHAREHOLDERS' EQUITY			
Share capital (Note 12)	**103,144,174**	103,055,103	84,033,523
Contributed surplus (Note 12)	**12,106,243**	12,073,436	7,143,351
Accumulated other comprehensive income	**6,998,033**	4,984,841	-
Deficit	**(45,986,656)**	(44,420,022)	(22,923,217)
Total Shareholders' Equity	**76,261,794**	75,693,358	68,253,657
Total Liabilities and Shareholders' Equity	**$ 80,537,635**	$ 82,416,392	$ 69,698,824

Future Operations (Note 2), Subsequent events (Note 15)

See accompanying notes to these condensed consolidated interim financial statements.

LNG Energy Ltd.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

	Three months ended December 31,	
(in Canadian dollars, unaudited)	**2011**	2010
Expenses		(Note 16)
Depletion and depreciation	**$ 11,095**	$ 8,564
General and administrative expenses	**610,438**	461,584
Loss on disposal of asset	**-**	17,854
Unrealized loss (gain) on investment	**2,190**	(2,777)
Professional fees	**521,986**	386,700
Stock based compensation (Note 12)	**10,663**	911,021
Travel and business development	**183,471**	157,618
	(1,339,843)	(1,940,564)
Accretion expense	**(113)**	-
Interest expense	**(720)**	-
Foreign exchange loss	**(189,745)**	(122,611)
Other income	**1,328**	49,538
	(189,250)	(73,073)
Loss from continuing operations	**(1,529,093)**	(2,013,637)
Loss from discontinued operations (Note 7)	**(37,541)**	(40,485)
Net loss for the period	**$ (1,566,634)**	$ (2,054,122)
Other comprehensive income (loss)		
Foreign currency translation	**2,013,192**	157,941
Comprehensive income (loss) for the period	**$ 446,558**	$ (1,896,181)
Loss per share: (Note 12)		
Basic and diluted from continuing operations	**(0.00)**	(0.01)
Basic and diluted from discontinuing operations	**(0.00)**	(0.00)
Basic and diluted	**(0.00)**	(0.01)

See accompanying notes to these condensed consolidated interim financial statements.

LNG Energy Ltd.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in Canadian dollars, unaudited)	Number of shares		Share Capital		Contributed Surplus		Deficit		Accumulated Other Comprehensive Income		Total Shareholders' Equity
Balance, October 1, 2011 (Note 16)	**338,519,365**	**$**	**103,055,103**	**$**	**12,073,436**	**$**	**(44,420,022)**	**$**	**4,984,841**	**$**	**75,693,358**
Stock-based compensation	-		-		168,178		-		-		168,178
Shares issued upon exercise of options	200,000		155,371		(135,371)		-		-		20,000
Share issue costs	-		(66,300)		-		-		-		(66,300)
Net loss for the period	-		-		-		(1,566,634)		-		(1,566,634)
Foreign currency translation	-		-		-		-		2,013,192		2,013,192
Balance, December 31, 2011	**338,719,365**	**$**	**103,144,174**	**$**	**12,106,243**	**$**	**(45,986,656)**	**$**	**6,998,033**	**$**	**76,261,794**
Balance, October 1, 2010 (Note 16)	**257,234,365**	**$**	**84,033,523**	**$**	**7,143,351**	**$**	**(22,923,217)**	**$**	**-**	**$**	**68,253,657**
Stock-based compensation	-		-		924,339		-		-		924,339
Shares issued upon exercise of options	210,000		107,511		(56,136)		-		-		51,375
Share issue costs	-		4,667		-		-		-		4,667
Net loss for the period	-		-		-		(2,054,122)		-		(2,054,122)
Foreign currency translation	-		-		-		-		157,941		157,941
Balance, December 31, 2010	**257,444,365**	**$**	**84,145,701**	**$**	**8,011,554**	**$**	**(24,977,339)**	**$**	**157,941**	**$**	**67,337,857**

LNG Energy Ltd.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

(in Canadian dollars, unaudited)	THREE MONTH ENDED DECEMBER 31 **2011**	2010
Operating activities:		
Net loss	**$ (1,566,634)**	$ (2,054,122)
Items not affecting cash:		
Depletion and depreciation (Note 7)	**11,095**	34,099
Accretion expense	**113**	(67)
Stock-based compensation	**10,663**	911,021
Loss on disposal of asset	**-**	17,854
Unrealized foreign exchange loss	**143,027**	99,288
Unrealized loss (gain) on investments	**2,190**	(2,777)
	(1,399,546)	(994,704)
Changes in non-cash working capital (Notes 7 and 13)	**552,512**	99,650
	(847,034)	(895,054)
Financing activities:		
Proceeds from stock option exercises	**20,000**	107,511
	20,000	107,511
Investing activities:		
Property, plant and equipment proceeds	**-**	1,090
Exploration and evaluation expenditures	**(11,339,801)**	(2,340,488)
Change in non-cash working capital (Note 13)	**(3,607,241)**	(69,391)
	(14,947,042)	(2,408,789)
Foreign exchange effect on cash and cash equivalents	**(160,574)**	(170)
Net decrease in cash and cash equivalents	**(15,934,650)**	**(3,196,502)**
Cash and cash equivalents, beginning of period	**20,510,667**	10,036,105
Cash and cash equivalents, end of period	**$ 4,576,017**	**$ 6,839,603**

See accompanying notes to these condensed consolidated interim financial statements.

1. NATURE OF OPERATIONS

LNG Energy Ltd. (the “Company” or "LNG") was incorporated on February 24, 2000 in the Province of British Columbia and changed its name to “LNG Energy Ltd.” on March 28, 2008. The Company’s common shares began trading under the symbol “LNG” on the TSX Venture Exchange on March 28, 2008. The Company is engaged in exploration activities of oil and gas properties in Papua New Guinea, Poland and Bulgaria. The address of LNG's registered office is 250, 1075 West Georgia Street, Vancouver, British Columbia.

2. FUTURE OPERATIONS

These condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern. These principles assume that the Company will be able to realize its assets and discharge its obligations in the normal course of operations for the foreseeable future. The Company is in the exploration stage and as such, the Company does not generate cash inflows from operations. To date, expenditures are financed by way of equity issuance. The recoverability of the Company's assets is uncertain and dependent upon achieving significant commercial production.

During the three month ended December 31, 2011, the Company incurred a net loss of $1,566,634, used $847,034 of cash flow in its operating activities and had an accumulated deficit of $45,986,656. As at December 31, 2011, the Company has working capital of $1,817,330. The Company’s working capital is not sufficient to meet all the oil and gas exploration work program commitments as outlined in Note 8. The Company is considering various alternatives to remedy any future shortfall in capital.

The Company’s ability to continue as a going concern is dependent upon obtaining the necessary financing to complete further exploration and development activities and generate profitable operations from its oil and natural gas interests in the future. The Company’s current operations are dependent upon the adequacy of its current assets to meet its current expenditure requirements and the accuracy of management’s estimates of those requirements. Should those estimates be materially incorrect, the Company’s ability to continue as a going concern could be impaired. Management believes the going concern assumption to be appropriate for these condensed consolidated interim financial statements. Should the going concern assumption not be appropriate and the Company is not able to realize its assets and settle its liabilities and commitments (as described in note 8), these condensed consolidated interim financial statements would require adjustments to the amounts and classifications of assets and liabilities, and these adjustments could be significant.

3. BASIS OF PRESENTATION

a) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 - Interim Financial Reporting of the International Financial Reporting Standards ("IFRS"). These condensed consolidated interim financial statements are the Company's first IFRS condensed consolidated interim financial statements after its transition to reporting in accordance with IFRS and before the issuance of its first publicly issued annual consolidated IFRS financial statements. IFRS 1 - First-time Adoption of IFRS 1 has been applied to these condensed consolidated interim financial statements. These condensed consolidated interim financial statements use the accounting policies which the Company expects to adopt in its annual consolidated financial statements for the year ended September 30, 2012, with the exception of certain disclosures that are normally required to be included in annual consolidated financial statements which have been condensed or omitted.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 16. The note includes reconciliations of equity and net loss for comparative periods under Canadian generally accepted accounting principles ("previous GAAP") to IFRS.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on March 28, 2012.

b) Basis of measurement

These financial statements have been prepared on the historical cost basis.

c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency. Several of LNG's subsidiaries transact in currencies other than the Canadian dollar and accordingly have functional currencies other than the Canadian dollar. The functional currency of a subsidiary is the currency of the primary economic environment in which the subsidiary operates. The Company has subsidiaries whereby the functional currency has been determined to be the Papua New Guinea Kina and the Polish Zloty. Transactions denominated in a currency other than the functional currency are translated at the rates on the date of the transaction. Any monetary items held in a currency other than the functional currency of the subsidiary are translated to the functional currency at the prevailing rate as at the date of the balance sheet. All exchange differences arising as a result of the translation to the functional currency are recorded in profit or loss.

Translation of all assets and liabilities from the respective functional currencies to the reporting currency is performed using the rates prevailing at the balance sheet date. The differences arising upon translation from the functional currency to the reporting currency are recorded as foreign currency translation adjustments in other comprehensive income ("AOCI") and are held within AOCI until a disposal or partial disposal of a subsidiary. A disposal or partial disposal will then give rise to a realized foreign exchange gain or loss which is recorded in profit or loss.

d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements is included in the following notes:

- Impairment testing - estimates of the recoverability of exploration and evaluation assets
- Depletion and depreciation - oil and natural gas reserves, including future prices, costs and reserve base to use in calculating depletion.
- Valuation and utilization of tax losses - estimates relating to the reversal of temporary differences, tax rates substantively enacted, and likelihood of assets being realized.
- Measurement of stock-based compensation - forfeiture rates and share price volatility
- Decommissioning liabilities - estimates relating to amounts, likelihood, timing, inflation and discount rates.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies below have been applied consistently to all periods presented in these condensed consolidated interim financial statements, and have been applied consistently by the Company and its subsidiaries.

a) Basis of Consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the condensed interim consolidated financial statements from the date that control commences until the date that control ceases.

These financial statements presented are those of LNG Energy Ltd. ("LNG") and the financial statements of its 100% owned subsidiaries LNG Energy US Inc. ("LNG US"), LNG Energy (BC) Ltd. ("LNG BC"), Kunagu Real Estate ("Kunagu"), Kaynes Capital S.a.r.l. ("Kaynes"), Telemu No. 18 Ltd. ("Telemu"), LNG Energy (PNG) Limited, ("LNG PNG"), LNG Energy No. 2 Limited ("LNG No. 2), Basin Tishomingo Holdings Inc. ("BTH"), and BWB Exploration, LLC ("BWB"). These condensed consolidated interim financial statements also include a proportionate consolidation of LNG's 50% owned subsidiaries Joyce Podlaise LLC ("Joyce") and Maryani Podlaise LLC ('Maryani) which each own 100% of Joyce Investment SP. z.o.o. ("Joyce Investments") and Maryani Investments SP z.o.o. ("Maryani Investments") respectively. Also, Kaynes holds a 20.18% interest in Saponis

Investments SP. z.o.o. ("Saponis") in which the Company also proportionately consolidates. All intercompany transactions have been eliminated on consolidation.

(ii) Jointly controlled operations and jointly controlled assets

Many of the Company's oil and natural gas activities involve jointly controlled assets. The financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(iii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the financial statements.

b) Financial instruments

Non-derivative financial instruments are comprised of amounts receivable, cash and cash equivalents, and accounts payable. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs for instruments which are not at fair value and is recorded in profit or loss. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents are comprised of cash on hand, term deposits held with banks, other short-term highly liquid investments with original maturities of three months or less. Other non-derivative financial instruments, such as amounts receivable and accounts payable, are measured at amortized cost using the effective interest method, less any impairment losses.

c) Property, plant and equipment and exploration and evaluation assets

(i) Recognition and measurement

Exploration and evaluation ("E&E") expenditures

Pre-license costs are recognized in profit or loss as incurred. Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as exploration and evaluation assets. The costs are accumulated in cost centres by well, field or exploration areas pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if: (i) sufficient data exists to determine technical feasibility and commercial viability, and/or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units. The technical feasibility and commercial viability of extracting oil and gas is considered to be determinable when proven and/or probable reserves are determined to exist. A review of each exploration license is carried out, at least annually, to ascertain whether proven and/or probable reserves have been discovered. Upon determination of proven and/or probable reserves, intangible exploration and evaluation assets attributable to those reserves are tested for impairment and then reclassified from exploration and evaluation assets to property, plant and equipment.

Development and production costs

Items of property, plant and equipment ("PP&E"), which include oil and gas development and production assets, are measured at cost less accumulated depletion, depreciation and accumulated impairment losses. Development and production assets are grouped into Cash Generating Units ("CGU" or "CGUs") for impairment testing. The Company allocated its historical PP&E cost at October 1, 2010, the date of IFRS transition, to the CGUs, based on values underlying each of the CGUs. When significant parts of an item of PP&E, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (components).

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of PP&E and are recognized in profit or loss.

(ii) Subsequent costs.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proven and/or probable reserves and bringing in or enhancing production from such reserves and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depletion and depreciation

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

For other assets, depreciation is recognized in profit or loss on a declining balance method. Equipment is recorded at cost on acquisition. Land is not depreciated.

The estimated useful lives for other assets for the current and comparative period are as follows:

Office equipment and furniture	15%
Vehicles	30%
Computer equipment and software	15% – 30%

d) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

E&E assets are assessed for impairment when they are reclassified to property, plant and equipment and/or also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purpose of impairment testing, assets are grouped together by geographic segments of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The recoverable amount of an asset is the greater of its value-in-use and its fair value less costs to sell.

E&E assets are allocated to related segments when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to PP&E.

An impairment loss is recognized if the carrying amount of an asset or its segment exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of segments are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of other assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of PP&E and E&E assets, recognized in prior years, is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

e) Share based payments

The grant date fair value of options granted to employees is recognized as compensation expense, with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of forfeited options.

f) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category. Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increase or decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

g) Revenue

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. Revenue is measured net of discounts, customs duties and royalties. With respect to the latter, the entity is acting as a collection agent on behalf of others.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

The Company is currently not generating any revenue from its operations.

h) Finance income and expenses

Finance expense comprises interest expense on borrowings, accretion of the discount on provisions and impairment losses recognized on financial assets.

Interest income is recognized as it accrues in profit or loss, using the effective interest method. Foreign currency gains and losses, reported under finance income and expenses, are reported on a net basis.

i) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

j) Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees.

k) Joint interest activities

Certain of the Company’s exploration, development and production activities are conducted jointly with other entities and accordingly the condensed consolidated interim financial statements reflect only the Company’s proportionate interest in such activities.

(l) New standards and interpretations not yet adopted

Certain pronouncements have been issued by the IASB, or the IFRS Interpretations Committee that are mandatory for accounting years beginning on or after January 1, 2012 or later years.

IAS 12 Income Taxes (effective January 1, 2012)
This standard has been amended on December 20, 2010 to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. The amendment to IAS 12 is effective for reporting periods beginning on or after January 1, 2012. The Company is currently evaluating the impact of this amendment to IAS 12 on its financial statements.

IFRS 9, Financial Instruments (effective January 1, 2015)
The standard is the first step in the process to replace IAS 39, Financial instruments: recognition and measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities and carries over from the requirements of IAS 39, Financial instruments: recognition and measurement, derecognition of financial assets and financial liabilities. This standard is not applicable until January 1, 2015 but is available for early adoption. The Company is currently assessing the impact that the adoption of IFRS 9 may have on its financial statements.

IFRS 10 Consolidated Financial Statements (effective January 1, 2013)
IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation — Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee, that is whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities. This standard is applicable for annual periods beginning on or after January 1, 2013 but is available for early adoption so long as IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements (2011) and IAS 28 Investments in Associates and Joint Ventures (2011) are also early applied. The Company is currently assessing the impact that the adoption of these standards may have on its financial statements.

IFRS 11 Joint Arrangements (effective January 1, 2013)
IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets. This standard is applicable for annual periods beginning on or after January 1, 2013 but is available for early adoption so long as IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements (2011) and IAS 28 Investments in Associates and Joint Ventures (2011) are also early applied. The Company is currently assessing the impact that the adoption of these standards may have on its financial statements.

IFRS 12 Disclosure of Interests in Other Entities (effective January 1, 2013)
IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities. This standard is applicable for annual periods beginning on or after January 1, 2013 but is available for early adoption. IFRS 12 disclosure is encouraged prior to adoption of the standard. This early disclosure does not require the entity to apply IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements (2011) and IAS 28 Investments in Associates and Joint Ventures (2011). The Company is currently assessing the impact that the adoption of these standards may have on its financial statements.

IFRS 13 Fair Value Measurement (effective January 1, 2013)
The main provisions of IFRS 13 includes defining fair value, setting out in a single standard framework for measuring fair value, and specifying certain disclosure requirements about fair value measurements. This new standard is effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact that the adoption of these standards may have on its financial statements.

IAS 27 Separate Financial Statements (2011) (effective January 1, 2013)
The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27. The other portions of IAS 27 are replaced by IFRS 10. These amendments are applicable for annual periods beginning on or after January 1, 2013 but are available for early adoption so long as IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, and IAS 28 Investments in Associates and Joint Ventures (2011) are also early applied. The Company is currently assessing the impact that the adoption of these standards may have on its financial statements.

IAS 28 Investments in Associates and Joint Ventures (2011) (effective January 1, 2013)
IAS 28 is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12. These amendments are applicable for annual periods beginning on or after January 1, 2013 but are available for early adoption so long as IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, and IAS 27 Separate Financial Statements (2011) are also early applied. The Company is currently assessing the impact that the adoption of these standards may have on its financial statements.

5. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods described below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment:

The fair value of PP&E recognized in an acquisition, is based on market values. The market value of PP&E is the estimated amount for which property, plant & equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas

interests (included in PP&E) is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

(ii) Cash and cash equivalents, amounts receivable and accounts payable:

The fair value of cash and cash equivalents, amounts receivable and accounts payable are estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date. As at the dates of the statement of financial position, the fair value of these balances approximate their carrying values due to their short term to maturity.

(iii) Stock options:

The fair value of employee stock options is measured using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds).

6. ACQUISITION

Joyce Podlaise and Maryani Podlaise LLC acquisition

On February 17, 2011, the Company, through its wholly owned subsidiary, Kaynes Capital S.a.r.l. (“Kaynes”), acquired a 50% interest in Joyce Podlaise LLC ("Joyce") and a 50% interest in Maryani Podlaise LLC ("Maryani") for a total cash purchase price of US$4,000,000 (Cdn$3,878,400). Joyce and Maryani each hold 100% interests in two oil and gas exploration concessions in Poland.

Allocation of the purchase price to the assets and liabilities acquired is as follows:

Exploration and evaluation assets	$	3,907,743
Current assets less current liabilities		(29,343)
Total net assets acquired	$	3,878,400

7. DISCONTINUED OPERATIONS

The Company sold all of its working interest in oil and gas leases in Oklahoma for cash proceeds of $4,960,188 (US$5,207,000) in the May 2011.

The following table presents summarized financial information related to the discontinued operation of the US assets:

	Three month ended December 31,	
Statement of operations	**2011**	**2010**
Depletion and depreciation	$ -	$ 25,535
General and administration expenses	369	8,152
Foreign exchange loss	9,420	17,028
Professional fees	2,401	22,631
Total expenses	(12,190)	(73,346)
Oil and gas revenue	-	29,412
Accretion expense	-	(67)
Other income	321	14,671
Tax expense	(25,672)	(11,155)
Loss from discontinued operations	$ (37,541)	$ (40,485)

Statement of cash flows	**2011**	**2010**
General and administration expenses	$ 369	$ 8,152
Income tax expense	25,672	11,155
Professional fees	2,401	22,631
Oil and gas revenue	-	(29,412)
Other income	(321)	(14,671)
Cash used in (from) operating activities	$ 28,121	$ (2,145)
Cash used in (from) discontinued operations	$ 28,121	$ (2,145)

8. EXPLORATION AND EVALUATION ASSETS

		Total
Cost or deemed cost		
Balance, October 1, 2010	$	32,198,880
Additions		18,601,143
Acquisiton (Note 6)		3,907,743
Change in decommissioning obligations		34,669
Capitalized stock-based compensation		1,587,148
Foreign currency translation		4,497,198
Balance, September 30, 2011	$	60,826,781
Additions		11,339,801
Change in decommissioning obligations		(372)
Capitalized stock-based compensation		157,515
Foreign currency translation		1,934,746
Balance, December 31, 2011	**$**	**74,258,471**

Papua New Guinea

The Company holds a 100% working interests in four Petroleum Prospecting Licenses (“PPL”) and one Petroleum Retention License (“PRL”) through permits received from the Minister of Petroleum and Energy for Papua New Guinea on November 20, 2008. The PPL licenses have a six year term with expenditure commitments for each license. The Company has submitted a renewal application to the Department of Petroleum and Energy (“DPE”) in Papua New Guinea for PRL 13 which expired on January 27, 2012. An application for an extension was submitted in July 2011.

The licenses are subject to a 22.5% back-in participation right in favour of the government, which the government may exercise upon payment of 22.5% of the costs incurred in the development of the property. The back-in participation right also includes a 2% revenue royalty payment obligation to indigenous groups, which is only payable if the government exercises its back-in participation right.

The PPL licenses have a six year term along with expenditure requirements. Expenditure requirements total US$49 million including US$48 million which must be spent by November 2012. The acquisition of a minimum of 10km of seismic as well as the drilling of an exploration well conditional on the seismic results showing a drillable target for each PPL. PRL 13 was renewed for one year and has a minimum expenditure requirement of US$1 million which includes the acquisition of a minimum of 10km of 2D seismic and the reprocessing of all existing 2D seismic and incorporate surface sampling and well control to ensure a comprehensive geological model. Recovery of costs in the Papua New Guinea properties is uncertain and is dependent upon achieving commercial production or sale. If the Company does not meet these expenditure and work program requirements, it may result in the loss of the licenses.

The minimum work expenditures to retain these licenses as at December 31, 2011 on each PPL and PRL are:

PPL#	Minimum Expenditures (in USD)	Date Required for Minimum Expenditures
PRL 13	$ 1,000,000	January 27, 2012
PPL 319	$ 12,000,000	November 29, 2012
PPL 320	$ 12,000,000	November 29, 2012
PPL 321	$ 12,000,000	November 29, 2012
PPL 322	$ 12,000,000	November 29, 2012
	$ 49,000,000	

During the three months ended December 31, 2011, $Nil of stock based compensation expense and $195,354 of general and administrative costs were capitalized ($8,762 of stock based compensation and $231,738 of general and administrative costs respectively for the three months ended December 31, 2010). During the year ended September 30, 2011, $1,049,607 of stock based compensation expense and $2,241,195 of general and administrative costs were capitalized.

Poland

The Company has a 20.18% net working interest in three concessions (Slupsk, Starogard and Slawno) in Poland. The other partners are BNK, Sorgenia E&P S.p.A., and Rohol-Aufsuchungs Aktiengesellschaft. These three concessions have license commitments that will require the drilling and testing of the second wells in each of the three concessions by June 2014.

The terms of these concessions will require the Company to fund its proportionate 20.18% share of all operational costs. The drilling and testing of the second wells in each of the three concessions is required to be drilled, completed and tested by June 2014 to retain these concessions.

In February 2011, the Company's wholly owned subsidiary, Kaynes acquired a 50% interest in two oil and gas concessions (Ilawa and Wegrow) for $3,878,400 (US$4,000,000) (Note 6). The terms of the Ilawa concession includes the reprocessing of existing seismic data and the acquisition of 50km of 2D seismic by June 2012. The Wegrow concession terms include the requirement to drill a well to a depth of 2,750m by December 2013.

If the Company does not fund its proportionate share of expenditures in Poland, the Company's working interest may be reduced through dilution to the other partners.

During the three months ended December 31, 2011, $157,515 of stock based compensation costs were capitalized in Poland ($Nil for the three months ended December 31, 2010 and $233,455 for the year ended September 30, 2011). $Nil in general and administrative costs were capitalized during the three months ended December 31, 2011 ($Nil for the three months ended December 31, 2010 and $108,471 for the year ended September 30, 2011). Recovery of costs in the Poland properties is uncertain and is dependent upon achieving commercial production or sale.

Bulgaria

In September 2011, the Company entered into a farm-in transaction with a wholly owned subsidiary of TransAtlantic Petroleum Ltd. ("TransAtlantic"), to earn a 50% interest in a future production concession in Bulgaria. LNG is expected fund up to US$20 million for a 50% undivided interest in the

Etropole concession. The application for the Etropole concession has been submitted. LNG will fund up to US$7.5 million to immediately drill, core and test a 3,200 meter (approximately 10,500 foot) exploration well on the A-Lovech exploration license in Bulgaria targeting the Middle Jurassic Etropole shale formation. When the Etropole concession is granted, an additional US$5 million is payable if the Etropole Concession is granted and covers not less than an aggregate of 300,000 acres. The remaining US$7.5 million is expected to be used to drill a second well or for other exploration activities on the Etropole Concession after it has been granted.

In January 2012, the Bulgarian Parliament enacted legislation which among other things, bans fracture stimulation in the Republic of Bulgaria. The Company is in the process of assessing the impact of the legislation on its operations in Bulgaria. While the legislation creates uncertainty with respect to the ultimate cost recovery of the Company's assets in Bulgaria, management does not believe that any impairment exists with respect to those assets to date.

For the three months ended December 31, 2011, LNG has advanced $1,581,873 for a total of $6,637,123 as at December 31, 2011 to drill the first exploration well. Recovery of costs in the Bulgarian property is uncertain and is dependent upon achieving commercial production or sale.

9. PROPERTY, PLANT AND EQUIPMENT

	Oil and natural gas assets (Note 7)	Other	Total
Cost or deemed cost			
Balance, October 1, 2010	$ 17,683,108	$ 369,152	$ 18,052,260
Additions	260,112	74,139	334,251
Dispositions	(5,460,188)	(53,277)	(5,513,465)
Foreign currency translation	(829,339)	(49,316)	(878,655)
Balance, September 30, 2011	$ 11,653,693	$ 340,698	$ 11,994,391
Foreign currency translation	-	50,058	50,058
Balance, December 31, 2011	**$ 11,653,693**	**$ 390,756**	**$ 12,044,449**
Accumulated depletion and depreciation			
Balance, October 1, 2010	$ 201,062	$ 146,994	$ 348,056
Depletion and depreciation	46,348	41,094	87,442
Disposition	-	(30,108)	(30,108)
Impairment	11,406,283	-	11,406,283
Foreign currency translation	-	(19,186)	(19,186)
Balance, September 30, 2011	$ 11,653,693	$ 138,794	$ 11,792,487
Depreciation	-	11,095	11,095
Foreign currency translation	-	20,366	20,366
Balance, December 31, 2011	**$ 11,653,693**	**$ 170,255**	**$ 11,823,948**
Net book value			
Balance, October 1, 2010			$ 17,704,204
Balance, September 30, 2011			$ 201,904
Balance, December 31, 2011			**$ 220,501**

United States

In May 2011, through its subsidiary, the Company completed the sale all of its working interest in oil and gas leases in Carter County, Oklahoma for $4,960,188 (US$5,207,000) in cash. (see Note 7).

10. JOINT VENTURES

Saponis Investments SP z.o.o.

Saponis holds 3 oil and gas concessions in Poland: Starogard, Slupsk and Slawno. The original work commitment under these concessions is comprised of additional core analysis, geological work and spudding of one well during the first 18 months from the date of grant on each concession. A second well also has to be drilled on each concession.

The terms and conditions of participation require the Company to fund 20.18% of all costs related to the concessions. The other partners are BNK, Sorgenia E&P S.p.A., and Rohol-Aufsuchungs Aktiengesellschaft. The Company's net interest in Saponis is accounted for on a proportionate consolidation basis.

For the three months ended December 31, 2011, year ended September 30, 2011 and October 1, 2010, the Company's net share of amounts attributed to it by the joint venture was as follows:

	December 31, 2011	September 30, 2011	October 1, 2010
Balance sheet:			
Cash and cash equivalents	$ 2,043,991	$ 3,131,857	$ 26,524
Amounts receivable	510,214	266,499	82,603
Prepaid expenses, advances and other deposits	33,189	14,494	-
Exploration and evaluation assets	8,422,957	6,577,456	668,128
Accounts payable and accrued liabilities	(1,788,819)	(5,327,345)	(818,561)
Decommissioning obligations	(37,561)	(37,820)	(3,019)
	$ 9,183,971	$ 4,625,141	$ (44,325)

	Three months ended December 31,	
	2011	2010
Income statement:		
Other income	$ (5,362)	$ (14,548)
Expenses	142,568	42,923
Foreign exchange gain	(170,295)	(2,066)
Net loss (income)	$ (33,089)	$ 26,309

Joyce Podlaise, LLC and Maryani Podlaise, LLC

In February 2011, the Company, through its subsidiary, Kaynes, acquired a 50% interest in Joyce and a 50% interest in Maryani for a total purchase price of US$4,000,000 (Cdn$3,878,400).

The terms and conditions of participation requires the Company to fund 50% of all costs related to the concessions. The other partner is San Leon Energy Plc ("San Leon"). The Company's net interest in

Joyce and Maryani is accounted for on a proportionate consolidation basis. The Company is the operator for both concessions.

For the three months ended December 31, 2011, year ended September 30, 2011 and October 1, 2010, the Company's net share of amounts attributed to it by the joint venture was as follows:

	December 31, 2011	September 30, 2011	October 1, 2010
Balance sheet:			
Cash and cash equivalents	$ 7,806	$ 3,241	$ -
Amounts receivable	12,212	12,040	-
Exploration and evaluation assets	4,180,292	4,945,253	-
Accounts payable and accrued liabilities	(141,175)	1,176	-
Net contribution from Joint Ventures	$ 4,059,135	$ 4,961,710	$ -

	Three months ended December 31, 2011	2010
Income statement:		
Expenses	$ (20,103)	$ (60,024)
Net loss	$ (20,103)	$ (60,024)

11. DECOMMISSIONING OBLIGATIONS

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with asset retirement costs of the Wytowno, Starogard and Lebork wells in Poland:

	Three months ended December 31, 2011	Year ended September 30, 2011
Balance, beginning of period	$ 37,820	$ 3,019
Addition	-	41,970
Disposition	-	(3,067)
Change in estimates	(372)	(4,234)
Accretion expense	113	132
Balance, end of period	$ 37,561	$ 37,820

The undiscounted cash flow required to settle the obligation for the Wytowno, Starogard and Lebork wells in Poland is approximately $183,960 with an estimated abandonment date of 2026.

12. SHARE CAPITAL

a) Authorized

Unlimited common shares without par value.

On September 14, 2011, the Company completed a public offering of 80,460,000 common shares at a price of $0.25 per common share for gross proceeds of $20,115,000. Total share issuance costs were $1,540,461.

b) Per share amounts

Per share amounts have been calculated using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three months ended December 31, 2011 is 338,719,365 (three months ended December 31, 2010 - 257,356,322). The average number of common shares outstanding was not increased for outstanding stock options as the effect would be anti-dilutive.

c) Stock Options

The following table summarizes information about stock option transactions:

	Number of Options	Average Exercise Price
Balance, October 1, 2010	13,395,000	$0.46
Granted	12,580,000	$0.52
Exercised	(825,000)	$0.23
Forfeited	(4,700,000)	$0.53
Balance, September 30, 2011	20,450,000	$0.49
Granted	150,000	$0.25
Exercised	(200,000)	$0.10
Forfeited	(4,500,000)	$0.45
Balance, December 31, 2011	15,900,000	$0.51

The following table summarizes information about the stock options outstanding at December 31, 2011:

Exercise Price	Outstanding Options	Options Exercisable	Expiry Date
$0.67	150,000	150,000	September 20, 2012
$0.58	3,000,000	3,000,000	November 27, 2012
$0.56	750,000	750,000	February 1, 2013
$0.275	1,490,000	1,490,000	May 1, 2013
$0.19	1,280,000	1,280,000	May 14, 2014
$0.35	500,000	500,000	November 23, 2015
$0.59	6,180,000	6,180,000	April 18, 2016
$0.53	2,400,000	800,000	June 07, 2016
$0.25	150,000	50,000	October 19, 2016
	15,900,000	14,200,000	

Assumptions used to value options in the Black-Scholes option-pricing model are as follows:

	Three months ended December 31,	
	2011	**2010**
Risk-free interest rate	1.40%	2.05%
Expected life	5 years	5 years
Expected volatility	108%	127%
Expected dividends	Nil	Nil
Average value per option	$0.14	$0.27-$0.31

A forfeiture rate of 3% (2010 - 3%) is used when recording stock based compensation. This estimate is adjusted to the actual forfeiture rate. Stock based compensation cost for the three months ended December 31, 2011 of $10,663 (three months ended December 31, 2010 - $ 911,021) was expensed during 2011.

13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

a) Changes in non-cash working capital are as follows:

	Three months ended December 31,	
	2011	2010
Amounts receivable	**$ (479,121)**	$ (14,817)
Prepaid expenses, advances and other term deposits	**(128,675)**	(8,759)
Accounts payable and accrued liabilities	**(2,446,933)**	53,835
Change in non-cash working capital	**$ (3,054,729)**	$ 30,259
Relating to:		
Operating activities	**$ 552,512**	99,650
Investing activities	**(3,607,241)**	(69,391)
Change in non-cash working capital	**$ (3,054,729)**	$ 30,259

14. SEGMENT INFORMATION

Geographic Information:

The Company operates in one reportable operating segment, being the exploration of oil and gas properties in Papua New Guinea, Bulgaria and Poland. The geographical information is as follows:

As at December 31, 2011	Papua New Guinea	Bulgaria	Poland	Canada	Total
Current assets	$ 1,789,525	$ -	$ 2,720,019	$ 1,546,066	$ 6,055,610
Investments	-	-	-	3,053	3,053
E&E assets	54,714,649	6,745,497	12,798,325	-	74,258,471
Property, plant and equipment	118,830	-	-	101,671	220,501
	$ 56,623,004	$ 6,745,497	$ 15,518,344	$ 1,650,790	$ 80,537,635

Year Ended December 31, 2011	Papua New Guinea	Bulgaria	United States	Poland	Canada	Total
Oil and gas revenue*	$ -	$ -	$ -	$ -	$ -	$ -

As at September 30, 2011	Papua New Guinea	Bulgaria	Poland	Canada	Total
Current assets	$ 1,028,724	$ -	$ 8,410,348	$ 11,943,392	$ 21,382,464
Investments	-	-	-	5,243	5,243
E&E assets	44,225,416	5,055,250	11,546,115	-	60,826,781
Property, plant and equipment	96,295	-	-	105,609	201,904
	$ 45,350,435	$ 5,055,250	$ 19,956,463	$ 12,054,244	$ 82,416,392

Year Ended December 31, 2010	Papua New Guinea	United States	Poland	Canada	Total
Oil and gas revenue*	$ -	$ 29,412	$ -	$ -	$ 29,412

* disclosed as discontinued operation (see Note 7)

15. SUBSEQUENT EVENTS

On February 27, 2012, the Company's wholly owned subsidiary, Kaynes Capital S.a.r.l., entered into two secured credit facilities totaling US $5 million. A full drawdown of the US $5 million was received on February 27, 2012. The funds drawn are repayable on or before February 27, 2013 and accrue interest at a fixed rate of 7% per annum. Pursuant to the terms of the Credit Facility, in the event that Kaynes disposes of certain prescribed assets prior to February 27, 2016, Kaynes will be required to pay the Lenders, in aggregate, a contingent bonus in an amount equal to 12.5% of the proceeds arising from the disposition of such assets and payable to the lenders pro rata in relation to their respective contributions to the loan.

16. TRANSITION TO IFRS

These condensed consolidated interim financial statements are the Company's first under IFRS.

The adoption of IFRS requires the application of IFRS 1. IFRS 1 generally requires that an entity retrospectively apply all IFRS effective at the end of its first IFRS reporting period; however IFRS 1 provides certain mandatory exceptions and permits limited optional exemptions. Certain IFRS 1 optional exemptions have been applied including:

- Deemed cost exemption for full cost oil and gas entities whereby exploration and evaluation assets were classified from the full cost pool to E&E.
- Decommissioning obligation exemption that allows any changes in decommissioning obligations on transition to IFRS to be adjusted through opening retained earnings.
- Stock-based compensation exemption that allows a company to only have to evaluate share based compensation awards that were unvested as of the date of transition.
- Business combination exemption that allows a company to not have to restate any business combination that occurred prior to the date of transition.
- Cumulative translation differences exemption which eliminated the cumulative translation differences and adjusted deficit by the same amount at the date of transition to IFRS.

The accounting policies in Note 4 have been applied in preparing the interim consolidated financial statements for the three months ended December 31, 2011, the comparative information for the three months ended December 31, 2011 and the preparation of the opening IFRS balance sheet at October 1, 2010, the Company's date of transition to IFRS.

In preparing its opening IFRS balance sheet, comparative information for the three months ended December 31, 2010 and condensed consolidated interim financial statements for the year ended December 31, 2010, the Company adjusted amounts previously reported in financial statements prepared in accordance with former previous GAAP. An explanation of how the transition from former previous GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and notes accompanying the tables.

Reconciliation of the Consolidated Statement of Financial Positions:

		As at October 1, 2010			As at September 30, 2011		
	Note	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS							
Current							
Cash and cash equivalents		$ 10,036,105	$ -	$ 10,036,105	$ 20,510,667	$ -	$ 20,510,667
Short term investments		9,015,750	-	9,015,750	-	-	-
Amounts receivable		314,242	-	314,242	409,267	-	409,267
Prepaid expenses, advances and other deposits		423,467	-	423,467	462,530	-	462,530
		19,789,564	-	19,789,564	21,382,464	-	21,382,464
Investments		6,176	-	6,176	5,243	-	5,243
Exploration and evaluation assets	A, E	-	32,198,880	32,198,880	-	60,826,781	60,826,781
Property, plant and equipment	E	51,050,573	(33,346,369)	17,704,204	56,475,427	(56,273,523)	201,904
Total Assets		$ 70,846,313	$ (1,147,489)	$ 69,698,824	$ 77,863,134	$ 4,553,258	$ 82,416,392
LIABILITIES							
Current							
Accounts payable and accrued liabilities		$ 1,442,148	$ -	$ 1,442,148	$ 6,685,214	$ -	$ 6,685,214
		1,442,148	-	1,442,148	6,685,214	-	6,685,214
Deferred tax liabilities	D	3,065,151	(3,065,151)	-	1,775,587	(1,775,587)	-
Decommissioning obligations	C	3,119	(100)	3,019	42,117	(4,297)	37,820
Total Liabilities		4,510,418	(3,065,251)	1,445,167	8,502,918	(1,779,884)	6,723,034
SHAREHOLDERS' EQUITY							
Share capital		84,033,523	-	84,033,523	103,055,103	-	103,055,103
Contributed surplus	B	7,155,373	(12,022)	7,143,351	11,996,847	76,589	12,073,436
Accumulated other comprehensive income	A	(987,772)	987,772	-	71,866	4,912,975	4,984,841
Deficit		(23,865,229)	942,012	(22,923,217)	(45,763,600)	1,343,578	(44,420,022)
Total Shareholders' Equity		66,335,895	1,917,762	68,253,657	69,360,216	6,333,142	75,693,358
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 70,846,313	$ (1,147,489)	69,698,824	$ 77,863,134	$ 4,553,258	82,416,392

Reconciliation of the Consolidated Statement of Financial Position:

		As at December 31, 2010		
	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current				
Cash		$ 6,839,603	$ -	$ 6,839,603
Short term investments		9,015,750	-	9,015,750
Amounts receivable		329,059	-	329,059
Prepaid expenses, advances and other deposits		432,226	-	432,226
		16,616,638	-	16,616,638
Investment		8,953		8,953
Exploration and evaluation assets	A, E	-	34,539,418	34,539,418
Property, plant and equipment	E	52,901,496	(35,175,092)	17,726,404
Total Assets		$ 69,527,087	$ (635,674)	$ 68,891,413
LIABILITIES				
Current				
Accounts payable and accrued liabilities		$ 1,491,286	$ -	$ 1,491,286
Total current liabilities		1,491,286	-	1,491,286
Deferred tax liabilities	D	3,065,151	(3,065,151)	-
Decommissioning obligations		62,759	(489)	62,270
Total Liabilities		4,619,196	(3,065,640)	1,553,556
EQUITY				
Share capital		84,145,701	-	84,145,701
Contributed surplus	B	8,054,927	(43,373)	8,011,554
Accumulated other comprehensive income (loss)	A	(1,412,376)	1,570,317	157,941
Deficit	A	(25,880,361)	903,022	(24,977,339)
Total Shareholders' Equity		64,907,891	2,429,966	67,337,857
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 69,527,087	$ (635,674)	$ 68,891,413

Reconciliation of the Consolidated Statement of Loss and Comprehensive Loss:

		For the three months ended December 31, 2010			For the year ended September 30, 2011		
	Note	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
Expenses							
Depletion and depreciation		$ 8,564	$ -	$ 8,564	$ 60,854	$ -	$ 60,854
General and administrative expenses		461,584	-	461,584	2,274,263	-	2,274,263
Loss on disposal of asset		17,854	-	17,854	20,914	-	20,914
Unrealized loss (gain) on investment		(2,777)	-	(2,777)	933	-	933
Professional fees		386,700	-	386,700	2,309,769	-	2,309,769
Stock based compensation (Note 12)	B	946,928	(35,907)	911,021	3,596,361	(69,443)	3,526,918
Travel and business development		157,618	-	157,618	648,763	-	648,763
Write-down of asset		-		-	24,122	-	24,122
Results from operating activities		(1,976,471)	35,907	(1,940,564)	(8,935,979)	69,443	(8,866,536)
Foreign exchange gain (loss)	A	(47,714)	(74,897)	(122,611)	(436,680)	332,123	(104,557)
Other income		49,538	-	49,538	114,835	-	114,835
		1,824	(74,897)	(73,073)	(321,845)	332,123	10,278
Loss from continuing operations		(1,974,647)	(38,990)	(2,013,637)	(9,257,824)	401,566	(8,856,258)
Loss from discontinued operations		(40,485)	-	(40,485)	(12,640,547)	-	(12,640,547)
Net loss		$ (2,015,132)	$ (38,990)	(2,054,122)	$ (21,898,371)	$ 401,566	(21,496,805)
Cumulative translation adjustment		(424,604)	582,545	157,941	1,059,638	3,925,203	4,984,841
Comprehensive loss		(2,439,736)	543,555	(1,896,181)	(20,838,733)	4,326,769	(16,511,964)

Impact of Transition to IFRS on previous year results.

A. Foreign Currency Translation - Under previous GAAP, LNG concluded that the functional currency of its foreign operating subsidiaries in PNG is the Canadian dollar. As a result of differences in the guidance for functional currency determination, LNG has concluded that under IFRS, the functional currency of PNG subsidiaries will be their respective local currencies, which is the Kina. As a consequence of this change, gains and losses related to the translation of the financial statements of these subsidiaries are recorded through other comprehensive income and do not impact net income until a disposal or partial disposal of a foreign operation. In addition, the capital asset accounts of LNG's PNG subsidiaries are translated to Canadian dollars at the foreign exchange rates in effect at the balance sheet date whereas under previous GAAP, these capital asset accounts were translated at historical rates of exchange. The translation of all balances denominated in foreign currencies resulted in an adjustment at each period from net earnings to other comprehensive income.

B. Share-based payments - Under previous GAAP, the Company revalued all unvested options to its consultants at the end of each reporting period. Under IFRS, share-based payments are expensed based on a graded vesting schedule without revaluation of all LNG consultants. The Company also incorporated a forfeiture multiplier rather than accounting for forfeitures as they occur. The adjustment to contributed surplus to account for the forfeiture was a decrease of $35,907 with the offset being charged to deficit.

C. Decommissioning obligations - Under previous GAAP, the Company treated decommissioning obligations by discounting the estimated decommissioning amount based on a credit adjusted risk-free rate. Under IFRS, the Company is required to revalue its obligation at each balance sheet date using a current liability-specific discount rate. At transition date, there were no significant adjustments to decommissioning obligations.

D. Deferred income tax - Under previous GAAP, the Company recorded deferred tax liabilities which arise from asset acquisitions due to the accounting to tax temporary differences. Under IFRS, the Company is to recognize a deferred tax liability for all temporary differences except for transactions which are not considered business combinations. At transition date, the Company reversed $3,065,151 in deferred tax liabilities in connection with previous asset acquisitions.

E. Exploration and Evaluation assets - As required under IFRS 6, the Company reclassified $17,482,046 at October 1, 2010 to Property, plant and equipment. See Note 9.

F. Cash flow statements - Upon transition to IFRS, there were no significant changes to operating, investing or financing cash flows for the three months ended December 31, 2010.